

**REPORT OF THE AUDIT OF THE
BOYLE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Tony W. Wilder, Boyle County Judge/Executive

Members of the Boyle County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Boyle County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise Boyle County's basic financial statements.

We engaged Percy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated the Boyle County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BOYLE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

Peercy and Gray, PSC, has completed the audit of the Boyle Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion, based on our audit and the reports of the other auditors, on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$7,510,054 as of June 30, 2004. The fiscal court had unrestricted net assets of \$2,211,960 in its governmental activities as of June 30, 2004, with total net assets of \$7,495,201. In its business-type activities, total net cash and cash equivalents were \$1,242 with total net assets of \$14,853. The fiscal court had total debt principal as of June 30, 2004 of \$5,152,437 with \$383,385 due within the next year.

Report Comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Eliminate The Deficit In The Unreserved Special Revenue Fund Balance Of The Joint Jail Fund

Deposits:

The fiscal court's deposits were uninsured and uncollateralized by bank securities or bonds as of July 1, 2003 by \$373,951.

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PEERCY AND GRAY, PSC

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Tony W. Wilder, Boyle County Judge/Executive

Members of the Boyle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Boyle County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Boyle County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Boyle County Municipal Properties Corporation, a blended component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Boyle County Municipal Properties Corporation is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Boyle County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Boyle County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has implemented Governmental Accounting Standards Board Statements 33, 34 and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statement.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Tony W. Wilder Thomas, Boyle County Judge/Executive
Members of the Boyle County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Boyle County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 2005 on our consideration of Boyle County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Eliminate The Deficit In The Unreserved Special Revenue Fund Balance Of The Joint Jail Fund

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
August 5, 2005

BOYLE COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Tony W. Wilder	County Judge/Executive
Donnie Coffman	Magistrate
Phil Sammons	Magistrate
Jim Ryan	Magistrate
John Hudson	Magistrate
John Davis	Magistrate
Rick McQuerry	Magistrate

Other Elected Officials:

Richard Campbell	County Attorney
Barry Harmon	Jailer
Denise Curtsinger	County Clerk
Trudy Stevens	Circuit Court Clerk
LeeRoy Hardin	Sheriff
Eddie Tamme	Property Valuation Administrator
James Ramey	Coroner

Appointed Personnel:

Mary Lynn	County Treasurer
Marcia Pierce	Occupational Tax Collector
Gayle Bowling	Finance Officer
Lennie Sheperson	911 Administrator

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BOYLE COUNTY FISCAL COURT

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Tony W. Wilder
County Judge/Executive

MAGISTRATES

First District
Rick McQuerry

Second District
Donnie Coffman

Third District
Phil Sammons

Fourth District
Jim Ryan

Fifth District
John Davis

Sixth District
John Hudson

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2004

The management team for the Boyle County Fiscal Court presents this narrative to help our readers review the accompanying annual financial statements for the year ended June 30, 2004. We have prepared this overview and analysis of the County's financial activities to add additional information to the financial schedules and the note disclosures.

The Governmental Accounting Standards Board issued a new standard in June 1999 that outlines new reporting requirements for state and local governments across the United States. The Fiscal Court uses the cash basis of accounting (which recognizes transactions immediately when cash is received or disbursed) as prescribed by the Kentucky State Local Finance Officer (KRS 68.210) and does not use the accounting methods outlined in GASB Statement 34. Our analysis will examine the financial highlights for this fiscal year and help explain the format for our readers.

FINANCIAL HIGHLIGHTS

- As of June 30, 2004, Boyle County had net assets of \$7,510,054. The fiscal court had unrestricted net assets of \$2,211,960 in their governmental activities as of June 30, 2004. In the business-type activities, cash and cash equivalents were \$1,242 with total assets of \$14,853. Total debt principal as of June 30, 2004 was \$5,152,437 with \$383,385 due within one year.
- Net assets decreased by \$386,960. The overall decrease in net assets was due to depreciation expense of \$422,759.
- At the close of the current fiscal year, Boyle County's balance sheet reported a fund balance (a measure of current financial resources) in the amount of \$2,582,357 in the governmental funds, which was a decrease of \$721,480 from the prior year. Of this amount, \$2,211,960 is unreserved and available for future programs.
- The General Fund unreserved fund balance, as of June 30, 2004, was \$1,618,986, or about 50% of total general fund expenditures.
- Boyle County's total indebtedness at the close of fiscal year ended June 30, 2004 was \$5,152,437, of which \$4,769,052 is long-term debt (due after one year) and \$383,385 is short-term debt (to be paid within one year). Debt additions were \$42,980 and debt reductions were \$418,895 for a net reduction of \$375,915. The key components of this reduction were the principal and interest payments made on long-term debts with little financing during the fiscal year ended June 30, 2004.

OVERVIEW OF FINANCIAL STATEMENTS

This management discussion and analysis is intended to introduce the Boyle County's basic financial statements. Basic financial statements include three major sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to provide additional information that our readers can use to analyze our finances.

Government-wide Financial Statements - The *government-wide financial statements* are designed to provide our readers with an overview of the County's finances, presenting all funds in a more simplified format. This section is similar to financial reporting used by commercial entities.

The *Statement of Net Assets* presents information on all the County's assets and liabilities, including long-term debt and capital assets in the governmental funds. The difference between assets and liabilities is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as transactions occur, regardless of when the related cash flows are reported (modified cash basis of accounting). Therefore, some revenues and expenses included in this statement may reflect cash flows that actually occur in future periods.

Under the County's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on a capital assets in the government-wide financial statement for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Government-wide statements are separated into two major categories: 1) *governmental activities* that are principally supported by taxes and intergovernmental revenues, and 2) *business-type activities* that are supported with user fees and charges. Governmental activities include administrative functions, protections to persons and property, roads, recreation and community programs. Business-type activities include the jail canteen and the internal service fund of the County's health program.

The government-wide financial statements include not only Boyle County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Boyle County has one such entity, the Municipal Properties Corporation. It is known as a blended component unit.

Fund Financial Statements – Funds are used in governmental accounting to separate resources that are designated for specific programs or activities. Boyle County, like other state and local governments uses fund accounting to demonstrate compliance with the laws, regulations, and contractual agreements that establish the authority for the County's programs and services. Governments use three types of funds: governmental, proprietary, and fiduciary funds.

Governmental Funds Governmental funds are used to account for the County's basic services, the same services that are included in the governmental activities on the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements

Boyle County
Management's Discussion and Analysis
June 30, 2004
(Continued)

focus on current financial resources, as well as balances of spendable resources available at the end of the fiscal year. This information is important for assessing the County's current financial resources.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current picture presented in the fund statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison.

Boyle County maintains eleven individual governmental funds. Major governmental funds include the General, Road, Joint Jail, TEA-21, and Emergency Medical Service Funds. The Local Government Economic Assistance, Surplus, Enhanced 911, KLCFCA, Boyle Jail and Boyle County Municipal Properties Corporation are considered non-major funds and are represented in a combined form.

Boyle County adopts an annual budget for all funds in accordance with Kentucky Revised Statutes Chapter 68. The budgetary comparison has been provided for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds Proprietary funds include two enterprise funds. The enterprise funds include operations for the jail canteen and an internal service fund for health insurance. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Notes to the Financial Statements - Notes provide additional information that is essential to a full understanding of the information included in the financial schedules.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table I

Net Assets of Governmental and Business-type Activities (in thousands)						
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 2,586	\$ 3,422	\$ 1	\$ 47	\$ 2,587	\$ 3,469
Capital assets	10,061	9,956	13		10,074	9,956
Total assets	12,647	13,378	14	47	12,661	13,425
Long-term debt outstanding	5,152	5,528			5,152	5,528
Total liabilities	5,152	5,528			5,152	5,528
Net assets:						
Invested in capital assets, net of related debt	4,909	4,371	13		4,922	4,371
Restricted	374	482	1	47	375	529
Unrestricted (deficit)	2,212	2,998			2,212	2,998
Total Net Assets	\$ 7,495	\$ 7,850	\$ 14	\$ 47	\$ 7,509	\$ 7,897

Boyle County
 Management's Discussion and Analysis
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 (Continued)

Changes in Net Assets

Governmental Activities - Boyle County's net assets decreased by \$354,363 in fiscal year 2004.

Key Elements of this are:

Current assets and cash decreased \$836,000

Investment in capital assets increased \$538,000 due to current year capital outlay.

Current and long-term liabilities decreased \$375,915.

Revenues were \$8,775,498 as reflected in the Statement of Activities.

Expenditures totaled \$9,129,861 as reflected in the Statement of Activities.

Business-type Activities - Boyle County's net assets decreased by \$32,597 in fiscal year 2004.

Key Elements of this are:

Current assets and cash decreased by \$164,076 due to the Internal Service Fund cash recorded in the Governmental Activities for 2004, but in the Business-type Activities for 2003.

Investment in capital assets increased \$13,611 due current year capital outlay.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, Boyle County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview - The focus of Boyle County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2004 fiscal year, the combined ending fund balance of Boyle County's governmental funds was \$2,582,357. Approximately 82% (\$2,116,101) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$466,256) is reserved to indicate that it is not available for new spending because it is committed.

The County has 5 major governmental funds. These are 1.) General Fund; 2.) Road Fund; 3.) Joint Jail Fund; 4.) TEA-21 Fund; and 5.) Emergency Medical Services Fund. There are 6 non-major funds. These are 1.) Local Government Economic Assistance Fund; 2.) State Surplus Fund; 3.) 911 Dispatch Fund; 4.) Financing Obligations Fund; 5.) Boyle Jail Fund; and 6.) Boyle County Municipal Properties Corporation Fund. These funds are combined for this report because their revenues and expenses are smaller than other funds of the County.

The fund statements for the proprietary funds look much like the business-type activities in the government-wide statements. Proprietary fund financial information is measured with the same principles used by commercial enterprises, so this information does not change from the fund statements to the government-wide statements.

1.) The General Fund is the chief operating fund of Boyle County. At the end of the June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$1,618,986 while the total fund balance is \$1,648,704. The County received \$2,077,843 in occupational tax revenues. This accounts for

Boyle County
Management's Discussion and Analysis
June 30, 2004
(Continued)

approximately 50% of the general fund revenue. \$781,601 was received from real and personal property taxes and accounts for approximately 19% of the County's general fund revenues. Various other service fees make up the remaining 31% of revenues. The fiscal year 2004 expenses were \$3,306,139. Highlights include: 1.) a one-time grant from the Tobacco Settlement fund in the amount of \$29,000 used in the installation of approximately 2.5 miles of rural water lines in Northwest Boyle County, 2.) Courthouse façade maintenance and the replacement of the front brick walk in the amount of \$43,000, 3.) the investment of \$30,000 toward the renovation/addition of the Rescue Squad portion of the Forkland Fire Station, and 4.) the construction of a new rescue squad building located in the Parksville community of Boyle County in the amount of \$28,629. The Parksville facility will be completed during the 2005 fiscal year budget. Included in the General Fund budget are expenses for the joint City of Danville/County of Boyle recycling services and Emergency Management Services, Boyle County's solid waste collection and open dump cleanups, Animal Control services for the City of Danville and County of Boyle, parks and recreation, and planning and zoning.

2.) The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$63,956 in fund balance at June 30, 2004. The General Fund transferred \$200,000 from occupational tax collections to the Road Fund for operational expenses. The fiscal year 2004 expenditures for road projects were \$200,000 and of that expenditure the State Transportation Cabinet allocated as a one-time grant the reimbursement of \$180,000 for these capital projects.

3.) The Joint Jail Fund is used to account for the operation of the Boyle/Mercer County Regional Detention Center. The operational costs are shared by both counties as set out in an inter-local agreement and based on annual inmate population ratios. The inmate ratio contributions for Boyle and Mercer Counties for operational expenses and debt service were based on 64% and 36%, respectively for the 2004 fiscal year. The Joint Jail Fund had a fund balance at June 30, 2004 of \$20,701. June 30, 2004 revenues were \$1,423,210. The Joint Jail Fund received \$691,337 for services, primarily for housing prisoners. Mercer County contributed \$324,288 toward the operational expenses and debt service payments. The inmates themselves contributed \$113,863 in fees for operational expenses derived from stay per diems, medical co pays and hygiene product reimbursements and work release fees. Boyle County's General Fund contributed \$576,513 from occupational tax collections.

4.) The TEA-21 Fund is a Federal Highways grant fund operating as a conduit for historic preservation dollars funding the Perryville Battlefield Preservation Association. The grant reimbursed at 100% the exterior stabilization of the Karricks-Parks Store on Merchant's Row in the amount of \$204,662 during the June 30, 2004 fiscal year.

5.) The Emergency Medical Services Fund is used to support the operations of an advanced life support ambulance service. The fiscal year end fund balance was \$58,604. June 30, 2004 revenues totaled \$924,246 and of that sum, \$898,418 was derived from ambulance run medical billings sent to and paid from health insurance companies, Medicaid, Medicare and individuals. Capital equipment includes the purchase and lease of a new ambulance in the amount of \$28,299, which was partially funded by an annual grant in the amount of \$11,583. Boyle County's General Fund contributed \$500,000 from occupational tax collections to support the service.

6.) The Local Government Economic Assistance Fund has a fund balance of \$90,155, which was an increase of \$22,650 over the previous fiscal year end. Total June 30, 2004 expenditures were \$44,217 and of that sum, road resurfacing projects accounted for \$34,880.

7.) The Boyle Jail Fund is used to primarily account for the Boyle County inmate population medical expenses. In addition, the fund includes Boyle County juvenile detention costs. The Boyle Jail fund balance for June 30, 2004 was \$16,912. Total revenue was \$37,438 and Boyle County's General Fund

Boyle County
 Management's Discussion and Analysis
 June 30, 2004
 (Continued)

contributed \$50,000 from occupational tax collections. Total expenses were \$107,481 and of that amount, \$101,716 was inmate medical service expenses, which accounts for 95% of the total.

8.) The 911 Dispatch Fund is used to support the operation of the County's emergency operations communications. It is supported in whole by a land line fee and cellular telephone fee paid by the consumer monthly. Total revenues were \$153,205 for fiscal year 2004 and had a fund balance of \$226,983. The fund balance represents a \$24,772 increase from the previous fiscal year.

9.) The State Surplus Fund is used for a multi-year Millennium Park project which is funded entirely by the City of Danville and the County of Boyle and for a conduit for small state grants that have been applied to the project. The June 30, 2004 fund balance is \$82,348. Boyle County received a one-time 50/50 grant from the State for Millennium Park trails development. \$26,150 was expended on asphalt and during the fiscal year 2004, \$15,701 was reimbursed from the grant. The City of Danville is supporting 50% of the multi-year softball field lighting lease in the amount of \$38,072 with a total annual expenditure of \$82,808 during the fiscal year 2004. Total expenses for the fund at June 30, 2004 year end was \$149,180. Boyle County's General Fund contributed \$80,000 from occupational tax collections to support the development.

10.) The Financing Obligations Fund is a state grant from the Kentucky Local Correctional Facilities Construction Authority in the amount of \$2,140,000 paid in ten-year increments of \$214,000 each year. These monies are to be used for the retirement of the Boyle/Mercer County Detention Center's facility construction debt. The source of the debt was a 1997 bond issue with a term of twenty years. The June 30, 2004 fund balance was \$287,397. Boyle and Mercer County are in the seventh year of the grant.

Proprietary Funds Overview - The County's proprietary fund statements provide the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

Boyle County has one enterprise fund.

The Jail Canteen Fund had net assets of \$14,853. The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates.

Boyle County has one Internal Service Fund.

The Health Insurance Fund supports the County's partially self-funded employee health insurance program. The County transfers from each fund (General, Road, Joint Jail and EMS) the amount for a single policy for each employee who is eligible and elects to receive coverage. Any employee who selected a plan that is not a single plan (i.e. family) has the additional premium deducted from their paychecks. The fund pays for all employee medical expenses during the plan year. The June 30, 2004 net assets balance was \$3,597.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgetary comparison schedules include information about both the original budget and the amended budget. Generally, budgets are amended to add projects that were not anticipated when the budget was first adopted. Revenue budgets are usually estimated lower to allow budgetary flexibility for additional projects.

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Management's Discussion and Analysis
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(Continued)

Boyle County's original budget was not amended during the fiscal year 2004. Actual operating revenues were \$511,059 more than amount originally budgeted by the Fiscal Court. This increase was primarily from Intergovernmental sources and tax revenues.

Actual operating expenditures were \$437,389 less than amount originally budgeted by the Fiscal Court.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - Boyle County's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$10,061,684 for governmental activities and \$13,611 for business-type activities (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions.

Major capital asset events during the 2004 fiscal year included the purchase of E911 computer aided design (InterCAD) software, the replacement of the courthouse front brick entrance, a 40-yard garbage compactor, two sheriff department Ford Explorers, and a detention center Chevrolet Suburban.

Capital Assets

The County's capital assets, net of accumulated depreciation are summarized below:

<u>County of Boyle, Kentucky Capital Assets (net of depreciation)</u>			
	Governmental Activities	Business- Type Activities	Total
Land	\$ 32,500	\$	\$ 32,500
Buildings	5,865,116		5,865,116
Vehicles and Equipment	1,450,618	13,611	1,464,229
Other Equipment	584,597		584,597
Infrastructure	2,100,224		2,100,224
Construction in progress	28,629		28,629
Total	<u>\$ 10,061,684</u>	<u>\$ 13,611</u>	<u>\$ 10,075,295</u>

Long-Term Debt

The principal outstanding on the City's long-term debt is summarized in the following table.

<u>Boyle County Fiscal Court's Outstanding Debt</u>			
	Governmental Activities	Business-Type Activities	Total
Financing Obligations	\$ 207,437	\$	\$ 207,437
Series 1997 Revenue Bonds	4,945,000		4,945,000
Total	<u>\$5,152,437</u>	<u>\$</u>	<u>\$ 5,152,437</u>

At the end of the 2004 fiscal year, Boyle County had total long-term debt outstanding of \$5,152,437 and the amount of this debt due within the next year is \$383,385. The county's debt was decreased \$375,915 during the fiscal year 2004. This debt is for the construction of the Government Services Center which houses the detention center, recycling center, public works department and the Danville

Boyle County
Management's Discussion and Analysis
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(Continued)

station for emergency medical services. In addition, this debt is for a loader, two ambulances and a two remounted ambulances, three rescue vehicles, park softball lighting and the jail inmate computer system hardware and software.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

As of November 30, 2004, the unemployment rate in Boyle County was 4.6%, which is a significant decrease from a rate of 6.2% for the same period in the previous year. This compares favorably to the national rate of 5.2%, but unfavorably to the state rate of 4.5% for the same period.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Treasurer's Office, 321 W. Main Street, Danville, KY 40422, and telephone number (859) 238-1100.

BOYLE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

BOYLE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	Totals
	Activities	Activities	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,585,954	\$ 1,242	\$ 2,587,196
Total Current Assets	2,585,954	1,242	2,587,196
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation:			
Construction In Progress	28,629		28,629
Land and Land Improvements	32,500		32,500
Buildings	5,865,116		5,865,116
Other Equipment	584,597		584,597
Vehicles and Equipment	1,450,618	13,611	1,464,229
Infrastructure	2,100,224		2,100,224
Total Noncurrent Assets	10,061,684	13,611	10,075,295
Total Assets	12,647,638	14,853	12,662,491
LIABILITIES			
Current Liabilities:			
Leases and Notes Payable	153,385		153,385
Bonds Payable	230,000		230,000
Total Current Liabilities	383,385		383,385
Noncurrent Liabilities:			
Leases and Notes Payable	54,052		54,052
Bonds Payable	4,715,000		4,715,000
Total Noncurrent Liabilities	4,769,052		4,769,052
Total Liabilities	5,152,437		5,152,437
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,909,247	13,611	4,922,858
Restricted For:			
Capital Projects	86,596		86,596
Debt Service	287,398		287,398
Other Purposes	3,597	1,242	4,839
Unrestricted	2,208,363		2,208,363
Total net assets	\$ 7,495,201	\$ 14,853	\$ 7,510,054

The accompanying notes are an integral part of the financial statements.

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BOYLE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

BOYLE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,601,442	\$ 728,495	\$ 301,898	\$
Protection to Persons and Property	2,933,071	97,402	1,263,304	
General Health and Sanitation	852,430	898,418	150,198	
Social Services	83,900			
Recreation and Culture	611,652			
Roads	558,061		637,470	
Debt Service	275,881			
Capital Projects	213,424		180,000	390,857
Total Governmental Activities	9,129,861	1,724,315	2,532,870	390,857
Business-type Activities:				
Jail Canteen Fund	139,709	101,274		
Total Business-type Activities	139,709	101,274		
Total Primary Government	\$ 9,269,570	\$ 1,825,589	\$ 2,532,870	\$ 390,857

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Interest Received

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

BOYLE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (2,571,049)	\$	\$ (2,571,049)
(1,572,365)		(1,572,365)
196,186		196,186
(83,900)		(83,900)
(611,652)		(611,652)
79,409		79,409
(275,881)		(275,881)
357,433		357,433
(4,481,819)		(4,481,819)
	(38,435)	(38,435)
	(38,435)	(38,435)
(4,481,819)	(38,435)	(4,520,254)
578,870		578,870
117,469		117,469
85,262		85,262
2,460,440		2,460,440
242,015		242,015
48,235	5,838	54,073
595,165		595,165
4,127,456	5,838	4,133,294
(354,363)	(32,597)	(386,960)
7,849,564	47,450	7,897,014
\$ 7,495,201	\$ 14,853	\$ 7,510,054

The accompanying notes are an integral part of the financial statements.

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BOYLE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004

BOYLE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Joint Jail Fund</u>	<u>TEA-21 Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 1,648,704	\$ 63,956	\$ 20,701	\$ 86,596
Total Assets	<u>\$ 1,648,704</u>	<u>\$ 63,956</u>	<u>\$ 20,701</u>	<u>\$ 86,596</u>
FUND BALANCES				
Unreserved:				
General Fund	\$ 1,618,986	\$	\$	\$
Special Revenue Fund		57,725	(15,564)	
Reserved for:				
Encumbrances	29,718	6,231	36,265	22,433
Debt Service Fund				
Capital Projects Fund				64,163
Total Fund Balances	<u>\$ 1,648,704</u>	<u>\$ 63,956</u>	<u>\$ 20,701</u>	<u>\$ 86,596</u>

The accompanying notes are an integral part of the financial statements.

BOYLE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Emergency Medical Services Fund	Non- Major Funds	Total Governmental Funds
\$ 58,604	\$ 703,796	\$ 2,582,357
<u>\$ 58,604</u>	<u>\$ 703,796</u>	<u>\$ 2,582,357</u>

\$ 50,455	\$ 404,499	\$ 1,618,986
8,149	11,899	497,115
	287,398	114,695
		287,398
		64,163
<u>\$ 58,604</u>	<u>\$ 703,796</u>	<u>\$ 2,582,357</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 2,582,357
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	13,526,772
Accumulated Depreciation	(3,465,088)
Internal Service Fund is used by management to charge the cost of health insurance to individual funds. The assets and liabilities are included in governmental activities on the Statement of Net Assets	3,597
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Due Within One Year-Bonds and Financing Obligations	(383,385)
Due In More Than One Year-Bonds and Financing obligations Principal	<u>(4,769,052)</u>
Net Assets Of Governmental Activities	<u>\$ 7,495,201</u>

The accompanying notes are an integral part of the financial statements.

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BOYLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BOYLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Joint Jail Fund	TEA-21 Fund
REVENUES				
Taxes	\$ 3,153,510	\$	\$	\$
Excess Fees	242,015			
Licenses and Permits	38,874			
Intergovernmental	286,197	816,735	1,254,996	176,198
Charges for Services			97,402	
Miscellaneous	416,319	735	70,388	
Interest	35,442	1,534	424	
Total Revenues	<u>4,172,357</u>	<u>819,004</u>	<u>1,423,210</u>	<u>176,198</u>
EXPENDITURES				
General Government	1,165,543			
Protection to Persons and Property	170,867		1,427,704	
General Health and Sanitation	853,806			
Social Services	83,900			
Recreation and Culture	339,905			204,662
Roads and Airport	14,513	612,273		
Debt Service	32,204	20,652	2,087	
Capital Projects	49,756	183,197	9,100	
Administration	629,541	171,732	437,028	
Total Expenditures	<u>3,340,035</u>	<u>987,854</u>	<u>1,875,919</u>	<u>204,662</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>832,322</u>	<u>(168,850)</u>	<u>(452,709)</u>	<u>(28,464)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	33,880		9,100	
Transfers From Other Funds	2,124,022	200,000	616,224	15,060
Transfers To Other Funds	(3,665,357)		(240,512)	
Total Other Financing Sources (Uses)	<u>(1,507,455)</u>	<u>200,000</u>	<u>384,812</u>	<u>15,060</u>
Net Change in Fund Balances	(675,133)	31,150	(67,897)	(13,404)
Fund Balances - Beginning (Restated)	2,323,837	32,806	88,598	100,000
Fund Balances - Ending	<u>\$ 1,648,704</u>	<u>\$ 63,956</u>	<u>\$ 20,701</u>	<u>\$ 86,596</u>

The accompanying notes are an integral part of the financial statements.

BOYLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Emergency Medical Services Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 88,531	\$ 3,242,041
		242,015
		38,874
22,716	366,150	2,922,992
898,418		995,820
2,750	105,708	595,900
362	10,473	48,235
<u>924,246</u>	<u>570,862</u>	<u>8,085,877</u>
		1,165,543
1,044,442	235,083	2,878,096
	8,624	862,430
		83,900
	67,085	611,652
	34,879	661,665
74,533	564,232	693,708
		242,053
357,118	871	1,596,290
<u>1,476,093</u>	<u>910,774</u>	<u>8,795,337</u>
<u>(551,847)</u>	<u>(339,912)</u>	<u>(709,460)</u>
		42,980
500,000	611,424	4,066,730
	(215,861)	(4,121,730)
<u>500,000</u>	<u>395,563</u>	<u>(12,020)</u>
(51,847)	55,651	(721,480)
110,451	648,145	3,303,837
<u>\$ 58,604</u>	<u>\$ 703,796</u>	<u>\$ 2,582,357</u>

The accompanying notes are an integral part of the financial statements.

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BOYLE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BOYLE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	(721,480)
--	----	-----------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		526,844
Depreciation Expense		(421,370)

Internal Service Fund is used by management to charge the cost of health insurance to individual funds. The net revenues (expenses) of this fund are reported with government activities.		(114,271)
---	--	-----------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to Governmental Funds. However, these transactions have no effect on net assets.

Financing Obligations		(42,980)
-----------------------	--	----------

Financing obligations and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. However, These transactions have no effect on net assets.

Financing Obligations		203,894
Bond Payments		215,000

Change in Net Assets of Governmental Activities	\$	(354,363)
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BOYLE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS
June 30, 2004

BOYLE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 1,242	\$ 3,597
Total Current Assets	<u>1,242</u>	<u>3,597</u>
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	15,000	
Less Accumulated depreciation	<u>(1,389)</u>	
Total Noncurrent Assets	<u>13,611</u>	
Total Assets	<u>14,853</u>	<u>3,597</u>
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	13,611	
Restricted		3,597
Unrestricted	<u>1,242</u>	
Total Net Assets	<u>\$ 14,853</u>	<u>\$ 3,597</u>

The accompanying notes are an integral part of the financial statements.

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BOYLE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

BOYLE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Operating Revenues		
Canteen Receipts	\$ 101,274	\$
Refunds/Reimbursements		689,621
Total Operating Revenues	<u>101,274</u>	<u>689,621</u>
Operating Expenses		
Cost of Sales	\$ 83,044	\$
Administration Fees		858,892
Personnel Costs	21,280	
Depreciation	1,389	
Miscellaneous	33,996	
Total Operating Expenses	<u>139,709</u>	<u>858,892</u>
Operating Income (Loss)	<u>(38,435)</u>	<u>(169,271)</u>
Nonoperating Revenues (Expenses)		
Interest	<u>5,838</u>	
Income Before Transfers	(32,597)	(169,271)
Transfers From Other Funds		55,000
Change In Net Assets	(32,597)	(114,271)
Total Net Assets - Beginning	<u>47,450</u>	<u>117,868</u>
Total Net Assets - Ending	<u><u>\$ 14,853</u></u>	<u><u>\$ 3,597</u></u>

The accompanying notes are an integral part of the financial statements.

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BOYLE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

BOYLE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
	Jail Canteen Fund	Health Insurance Fund
Cash Flows From Operating Activities		
Receipts From Customers	\$ 101,274	\$
Other Receipts		689,621
Cost of Sales	(83,044)	
Administrative Fees		(858,892)
Personnel Costs	(21,280)	
Miscellaneous	(33,996)	
Net Cash (Used) Provided By Operating Activities	<u>(37,046)</u>	<u>(169,271)</u>
Cash Flows From Noncapital Financing Activities		
Transfers From Other Funds		55,000
Net Cash Provided By Financing Activities		<u>55,000</u>
Cash Flows From Investing Activities		
Interest	5,838	
Net Cash Provided By Investing Activities	<u>5,838</u>	
Cash Flows From Capital and Related Financing Activities		
Capital Assets Purchased	(15,000)	
Net Cash (Used) By Capital and Related Financing Activities	<u>(15,000)</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	(46,208)	(114,271)
Cash and Cash Equivalents - July 1, 2003	47,450	117,868
Cash and Cash Equivalents - June 30, 2004	<u>\$ 1,242</u>	<u>\$ 3,597</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (38,435)	\$ (169,271)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities		
Depreciation Expense	1,389	
Total Cash Provided By Operating Activities	<u>\$ (37,046)</u>	<u>\$ (169,271)</u>

The accompanying notes are an integral part of the financial statements.

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BOYLE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS – MODIFIED CASH BASIS
June 30, 2004

BOYLE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS-MODIFIED CASH BASIS

JUNE 30, 2004

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 33,499</u>
Total Assets	<u> 33,499</u>
Liabilities	
Amounts Held In Custody For Others	<u> 33,499</u>
Total Liabilities	<u>\$ 33,499</u>

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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**BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expenses is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Boyle County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or whose exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provided their services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

- Boyle County Municipal Properties Corporation

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Boyle County Municipal Properties Corporation (Corporation) is a legally separate entity established for the purpose of construction of the county jail building and the related long-term debt service. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Boyle County Municipal Properties Corporation. Financial information for the Boyle County Municipal Properties Corporation is blended within Boyle County's financial statements

C. Boyle County Elected Officials Not Part Of Boyle County, Kentucky

Kentucky law provides for election of the below officials from the geographic area constituting Boyle County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Boyle County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-wide and Fund Financial Statements (Continued)

creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include; 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office For Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office For Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Joint Jail Fund - The primary purpose of this fund is to account for the jail expenditures of Boyle and Mercer counties. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office For Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

TEA - 21 Fund - The primary purpose of this fund is to account for renovations of historical properties. The primary source of revenue for this fund is reimbursements from the state and federal government.

Emergency Medical Services (EMS) Fund - The primary purpose of this fund is to account for the ambulance receipts and disbursements. The primary sources of revenue are grants and charges for services.

The primary government also has the following nonmajor funds: Local Government Economic Assistance Fund, Jail Fund, 911 Dispatch Fund, State Surplus Fund, Financing Obligations Fund and the Boyle County Municipal Properties Corporation.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Special Revenue Funds:

The Road Fund, Joint Jail Fund, TEA-21 Fund, EMS Fund, Local Government Economic Assistance Fund, Jail Fund, 911 Dispatch Fund, and State Surplus Fund are presented as special revenue funds. Special Revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Financing Obligations Fund and Boyle County Municipal Properties Corporation are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following proprietary funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Government-wide and Fund Financial Statements (Continued)

maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Internal Service Fund - This fund accounts for the goods or services provided by one governmental department or agency to another. The Health Program Fund of the Fiscal Court is reported as an Internal Service Fund type.

Fiduciary Funds

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Inmate Account Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from the inmates.

F. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets (continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 7,500	10-45
Buildings and Building Improvements	\$ 20,000	10-60
Machinery and Equipment	\$ 1,000	3-20
Vehicles	\$ 1,000	3-12
Infrastructure	\$ 5,000	10-40

H. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Budgetary Information (Continued)

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

K. Related Organization and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Water District is considered a related organization of Boyle County Fiscal Court.

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the Parks and Recreation is considered a jointly governed organization of the Boyle County Fiscal Court.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of July 1, 2003, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit with one depository institution, leaving \$373,951 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of July 1, 2003.

	<u>Bank Balance</u>
FDIC Insured	\$ 200,000
Collateralized with securities held by pledging depository institution in the Fiscal Court's name	500,000
Uncollateralized and uninsured	<u>373,951</u>
Total	<u><u>\$ 1,073,951</u></u>

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases
Primary Government:			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 32,500	\$	\$ 32,500
Construction In Progress		28,629	28,629
Total Capital Assets Not Being Depreciated	32,500	28,629	61,129
Capital Assets, Being Depreciated:			
Buildings	7,093,710	43,600	7,137,310
Other Equipment	1,017,113	166,041	1,183,154
Vehicles and Equipment	2,255,551	73,795	2,329,346
Infrastructure	2,601,054	214,779	2,815,833
Total Capital Assets Being Depreciated	12,967,428	498,215	13,465,643
Less Accumulated Depreciation For:			
Buildings	(1,146,511)	(125,683)	(1,272,194)
Other Equipment	(517,931)	(80,626)	(598,557)
Vehicles and Equipment	(719,537)	(159,191)	(878,728)
Infrastructure	(659,739)	(55,870)	(715,609)
Total Accumulated Depreciation	(3,043,718)	(421,370)	(3,465,088)
Total Capital Assets, Being Depreciated, Net	9,923,710	76,845	10,000,555
Governmental Activities Capital Assets, Net	<u>\$ 9,956,210</u>	<u>\$ 105,474</u>	<u>\$ 10,061,684</u>
<u>Business-Type Activities:</u>			
Capital Assets, Being Depreciated:			
Vehicles and Equipment	\$	\$ 15,000	\$ 15,000
Total Capital Assets Being Depreciated		15,000	15,000
Less Accumulated Depreciation For:			
Vehicles and Equipment		(1,389)	(1,389)
Total Accumulated Depreciation		(1,389)	(1,389)
Total Capital Assets, Being Depreciated, Net		13,611	13,611
Business-Type Activities Capital Assets, Net	<u>\$ 0</u>	<u>\$ 13,611</u>	<u>\$ 13,611</u>

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 112,981
Protection to Persons and Property	197,214
Roads	<u>111,175</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 421,370</u></u>

Business-Type Activities

Jail Canteen	<u>\$ 1,389</u>
Total Depreciation Expense - Business Activities	<u><u>\$ 1,389</u></u>

Note 4. Long-term Debt

A. Lease Revenue Bonds, Series 1997

On February 15, 1997, the Boyle County Municipal Properties Corporation (Corporation), an agency and instrumentality of the Fiscal Court, issued lease revenue bonds for the purpose of constructing a detention center. The following is a summary of some of the significant provisions of the Series of 1997 bond issue held:

Par Amount of original issue	\$5,935,000
Discount on original issue	118,566
Rate of interest on remaining issue	4.75% to 5.30%
Bonds due	February 1
Interest due	February 1 and August 1
First principal payment	February 1, 2000
Last principal payment	February 1, 2019

Call Provisions:

1997 Series bonds maturing on and after February 1, 2008 are subject to redemption at the option of the Corporation (and upon its written discretion to the Trustee) prior to maturity on February 1, 2007 and on any date thereafter in whole, or from time to time in part, in increments of \$5,000 and in any order of maturity (less than all of a single maturity to be selected by lot by the Trustee) at the following prices (expressed as percentages of principal amount) plus interest accruing to the redemption date:

February 1, 2007 and prior to February 1, 2008	102%
February 1, 2008 and prior to February 1, 2009	101%
February 1, 2009 and thereafter	100%

The following is a summary of the remaining principal and interest requirements of the Series of 1997 as of June 30, 2004:

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

A. Lease Revenue Bonds, Series 1997 (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 230,000	\$ 255,942
2006	240,000	244,730
2007	250,000	233,030
2008	265,000	220,843
2009	275,000	207,858
2010-2014	1,605,000	812,900
2015-2019	2,080,000	341,850
Totals	<u>\$ 4,945,000</u>	<u>\$ 2,317,153</u>

B. Loader

On January 5, 2001, the Boyle County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of a loader. The principal was \$99,750 at an effective interest rate of 3.95 percent for a period of three years, with principal and interest paid monthly. The lease was paid in full in the fiscal year ended June 30, 2004.

C. Ambulance

On January 16, 2002, the Boyle County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of an ambulance. The principal was \$49,500 at an effective interest rate of 3.25 percent for a period of three years, with principal and interest paid monthly. The lease was paid in full in the fiscal year ended June 30, 2004. The principal outstanding as of June 30, 2004, was \$9,994. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest & Fees</u>
2005	\$ 9,994	\$ 132
Totals	<u>\$ 9,994</u>	<u>\$ 132</u>

D. Rescue Vehicles

On February 12, 2002, the Boyle County Fiscal Court entered into loan agreement with National City Bank for the purchase of rescue vehicles. The principal was \$85,150 at an effective interest rate of 3.36 percent for a period of three years, with principal and interest paid monthly. The principal outstanding as of June 30, 2004, was \$18,790. Future principal and interest requirements are:

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

D. Rescue Vehicles (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 18,790	\$ 91
Totals	<u>\$ 18,790</u>	<u>\$ 91</u>

E. Ambulance and Remount #1

On August 15, 2002, the Boyle County Fiscal Court entered into loan agreement with National City Bank for the purchase of an ambulance and remount. The principal was \$108,000 at an effective interest rate of 2.77 percent for a period of three years, with principal and interest paid monthly. The principal outstanding as of June 30, 2004, was \$42,882. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 33,602	\$ 699
2006	9,280	43
Totals	<u>\$ 42,882</u>	<u>\$ 742</u>

F. Softball Field Lighting

On December 19, 2002, the Boyle County Fiscal Court entered into loan agreement with National City Bank for the purchase of softball field lighting. The principal was \$219,000 at an effective interest rate of 2.64 percent for a period of three years, with principal and interest paid monthly. The principal outstanding as of June 30, 2004, was \$111,544. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 67,803	\$ 1,961
2006	43,741	395
Totals	<u>\$ 111,544</u>	<u>\$ 2,356</u>

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

G. Ambulance and Remount #2

On October 22, 2003, the Boyle County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for an ambulance and remount. The principal was \$33,880 at an effective interest rate of 2.15 percent for a period of fourteen months, with principal paid annually and interest paid monthly. The principal outstanding as of June 30, 2004, is \$17,114. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 17,114	\$ 295
Totals	<u>\$ 17,114</u>	<u>\$ 295</u>

H. Jail Inmate System Hardware and Software

On February 11, 2004, the Boyle County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for jail inmate system hardware and software. The principal was \$9,100 at an effective interest rate of 2.245 percent for a period of eighteen months, with principal and interest paid monthly. The principal outstanding as of June 30, 2004, is \$7,113. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 6,082	\$ 130
2006	1,031	5
Totals	<u>\$ 7,113</u>	<u>\$ 135</u>

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

I. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 5,160,000	\$	\$ 215,000	\$ 4,945,000	\$ 230,000
Financing Obligations	368,352	42,980	203,895	207,437	153,385
Governmental Activities					
Long-term Liabilities	<u>\$ 5,528,352</u>	<u>\$ 42,980</u>	<u>\$ 418,895</u>	<u>\$ 5,152,437</u>	<u>\$ 383,385</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$9,457 in interest on financing obligations and \$266,424 in interest on bonds and notes.

Note 6. Employee Retirement System

The Boyle County Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent. Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

Boyle County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 7. Deferred Compensation (Continued)

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862.

Note 8. Insurance

For the fiscal year ended June 30, 2004, Boyle County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Health Insurance Fund

The Boyle County Health Insurance Fund provides health insurance coverage to county employees. The County transfers from each fund (General, Road, Joint Jail, and Emergency Medical Services), the amount for a single policy for each employee who is eligible and elects to receive insurance coverage from the county. Any employee who selected a plan that is not a single plan (i.e. family, spouse/children) has the additional premium deducted from their paychecks. Premiums are determined by the county based upon the recommendations submitted to them by the reinsurer.

Boyle County also carries insurance to pay claims in excess of \$20,000 per person per incident. Additionally, its reinsurer pays for all claims in one plan year over a specified dollar amount. The county pays for all expenditures during a plan year, and the amount to be repaid by the reinsurer is reimbursed to the county at the end of the plan year.

Note 10. Fund Balance - Deficit

As of June 30, 2004, the Joint Jail Fund had a deficit in its unreserved special revenue fund balance of \$15,564. This amount was due to the existence of encumbrances in the amount of \$36,265. The deficit was eliminated with the deposit of funds after June 30, 2004.

Note 11. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is as follows:

BOYLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 11. Changes in Accounting Principles and Prior Period Adjustments (Continued)

	Governmental Activities	Business-Type Activities
Beginning Balance	\$ 3,422,862	\$ 165,319
Capital Assets (net of accumulated depreciation) previously omitted	9,956,210	
Long-Term Debt previously omitted	(5,528,352)	
Internal Service Fund previously omitted from Governmental Activities	117,869	(117,869)
Municipal Properties Corporation restatement due to change in accounting principals	(119,025)	
Total Restated Beginning Balance	<u>\$ 7,849,564</u>	<u>\$ 47,450</u>

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BOYLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

BOYLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,700,000	\$ 2,700,000	\$ 3,153,510	\$ 453,510
Excess Fees	223,498	223,498	242,015	18,517
Licenses and Permits	28,000	28,000	38,874	10,874
Intergovernmental Revenue	363,700	363,700	286,197	(77,503)
Miscellaneous	290,600	290,600	416,319	125,719
Interest	55,500	55,500	35,442	(20,058)
Total Revenues	3,661,298	3,661,298	4,172,357	511,059
EXPENDITURES				
General Government	1,145,622	1,271,009	1,165,543	105,466
Protection to Persons and Property	218,264	260,787	170,867	89,920
General Health and Sanitation	807,190	878,733	853,806	24,927
Social Services	83,600	83,900	83,900	
Recreation and Culture	417,300	422,454	339,905	82,549
Airports	14,510	14,513	14,513	
Debt Service	79,821	79,821	32,204	47,617
Capital Projects	15,000	15,876	49,756	(33,880)
Administration	1,332,176	750,331	629,541	120,790
Total Expenditures	4,113,483	3,777,424	3,340,035	437,389
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(452,185)	(116,126)	832,322	948,448
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			33,880	(33,880)
Transfers From Other Funds			2,124,022	2,124,022
Transfers To Other Funds	(1,518,960)	(1,518,960)	(3,665,357)	(2,146,397)
Total Other Financing Sources (Uses)	(1,518,960)	(1,518,960)	(1,507,455)	(56,255)
Net Changes in Fund Balances	(1,971,145)	(1,635,086)	(675,133)	959,953
Fund Balances - Beginning	1,971,145	1,971,145	2,323,837	352,692
Fund Balances - Ending	\$ 0	\$ 336,059	\$ 1,648,704	\$ 1,312,645

BOYLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Intergovernmental Revenue	\$ 811,142	\$ 811,142	\$ 816,735	\$ 5,593
Miscellaneous			735	735
Interest	2,500	2,500	1,534	(966)
Total Revenues	<u>813,642</u>	<u>813,642</u>	<u>819,004</u>	<u>5,362</u>
EXPENDITURES				
Transportation Facilities	21,400	21,750	20,056	1,694
Roads	671,250	671,372	592,216	79,156
Debt Service	21,000	20,970	20,652	318
Capital Projects	124,000	183,909	183,197	712
Administration	180,775	183,411	171,732	11,679
Total Expenditures	<u>1,018,425</u>	<u>1,081,412</u>	<u>987,853</u>	<u>93,559</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(204,783)</u>	<u>(267,770)</u>	<u>(168,849)</u>	<u>98,921</u>
OTHER FINANCING SOURCES				
Transfers From Other Funds	<u>108,563</u>	<u>108,563</u>	<u>200,000</u>	<u>91,437</u>
Total Other Financing Sources	<u>108,563</u>	<u>108,563</u>	<u>200,000</u>	<u>91,437</u>
Net Changes in Fund Balances	(96,220)	(159,207)	31,151	190,358
Fund Balances - Beginning	<u>96,220</u>	<u>96,220</u>	<u>32,806</u>	<u>(63,414)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (62,987)</u>	<u>\$ 63,957</u>	<u>\$ 126,944</u>

BOYLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	JOINT JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,134,004	\$ 1,134,004	\$ 1,254,996	\$ 120,992
Charges for Services	78,500	78,500	97,402	18,902
Miscellaneous	58,350	58,350	70,388	12,038
Interest	750	750	424	(326)
Total Revenues	1,271,604	1,271,604	1,423,210	151,606
EXPENDITURES				
Protection to Persons and Property	1,437,700	1,462,200	1,427,704	34,496
Debt Service	201,670	200,801	2,087	198,714
Capital Projects			9,100	(9,100)
Administration	362,125	439,671	437,028	2,643
Total Expenditures	2,001,495	2,102,672	1,875,919	226,753
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(729,891)	(831,068)	(452,709)	378,359
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			9,100	9,100
Transfers From Other Funds	651,352	651,352	616,224	(35,128)
Transfers To Other Funds			(240,512)	(240,512)
Total Other Financing Sources (Uses)	651,352	651,352	384,812	(266,540)
Net Changes in Fund Balances	(78,539)	(179,716)	(67,897)	111,819
Fund Balances - Beginning	78,539	78,539	88,598	10,059
Fund Balances - Ending	\$ 0	\$ (101,177)	\$ 20,701	\$ 121,878

BOYLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	TEA-21 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 485,400	\$ 485,400	\$ 176,198	\$ (309,202)
Total Revenues	485,400	485,400	176,198	(309,202)
EXPENDITURES				
Recreation and Culture	215,000	235,000	204,662	30,338
Administration	270,400	250,400		250,400
Total Expenditures	485,400	485,400	204,662	280,738
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			(28,464)	(28,464)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			15,060	15,060
Transfers To Other Funds	(100,000)	(100,000)		100,000
Total Other Financing Sources (Uses)	(100,000)	(100,000)	15,060	115,060
Net Changes in Fund Balances	(100,000)	(100,000)	(13,404)	86,596
Fund Balances - Beginning	100,000	100,000	100,000	
Fund Balances - Ending	\$ 0	\$ 0	\$ 86,596	\$ 86,596

BOYLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

EMERGENCY MEDICAL SERVICES FUND				
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 11,500	\$ 11,500	\$ 22,716	\$ 11,216
Charges for Services	675,100	675,100	898,418	223,318
Miscellaneous	2,500	2,500	2,750	250
Interest	500	500	362	(138)
Total Revenues	<u>689,600</u>	<u>689,600</u>	<u>924,246</u>	<u>234,646</u>
EXPENDITURES				
Protection to Persons and Property	977,495	1,048,586	1,044,442	4,144
Debt Service	72,000	74,533	74,533	
Administration	<u>378,650</u>	<u>389,232</u>	<u>357,118</u>	<u>32,114</u>
Total Expenditures	<u>1,428,145</u>	<u>1,512,351</u>	<u>1,476,093</u>	<u>36,258</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(738,545)</u>	<u>(822,751)</u>	<u>(551,847)</u>	<u>270,904</u>
OTHER FINANCING SOURCES				
Transfers From Other Funds	<u>678,370</u>	<u>678,370</u>	<u>500,000</u>	<u>(178,370)</u>
Total Other Financing Sources	<u>678,370</u>	<u>678,370</u>	<u>500,000</u>	<u>(178,370)</u>
Net Changes in Fund Balances	(60,175)	(144,381)	(51,847)	92,534
Fund Balances - Beginning	<u>60,175</u>	<u>60,175</u>	<u>110,451</u>	<u>50,276</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (84,206)</u>	<u>\$ 58,604</u>	<u>\$ 142,810</u>

BOYLE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

1. Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation to the General Fund:

Capital Projects Expenditures- Budgetary Basis	\$ 49,756
Less: Financing Obligation Uses Not Budget	<u>(33,880)</u>
Total Budgeted Amounts-Final	<u><u>\$ 15,876</u></u>

Financing Obligation Proceeds	33,880
Less: Financing Obligation Proceeds Not Budget	<u>(33,880)</u>
Total Budget Amounts-Final	<u><u>\$ 0</u></u>

3. Reconciliation to the Joint Jail Fund:

4.

Capital Projects Expenditures- Budgetary Basis	\$ 9,100
Less: Financing Obligation Uses Not Budget	<u>(9,100)</u>
Total Budgeted Amounts-Final	<u><u>\$ 0</u></u>

Financing Obligation Proceeds	\$ 9,100
Less: Financing Obligation Proceeds Not Budget	<u>(9,100)</u>
Total Budget Amounts-Final	<u><u>\$ 0</u></u>

BOYLE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

BOYLE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Local Government Economic Assistance Fund	Jail Fund	911 Dispatch Fund	State Surplus Fund
ASSETS				
Cash and Cash Equivalents	\$ 90,155	\$ 16,912	\$ 226,983	\$ 82,348
Total Assets	<u>\$ 90,155</u>	<u>\$ 16,912</u>	<u>\$ 226,983</u>	<u>\$ 82,348</u>
FUND BALANCES				
Unreserved:				
Special Revenue Fund	\$ 90,155	\$ 10,413	\$ 221,583	\$ 82,348
Reserved for:				
Encumbrances		6,499	5,400	
Debt Service Fund				
Total Fund Balances	<u>\$ 90,155</u>	<u>\$ 16,912</u>	<u>\$ 226,983</u>	<u>\$ 82,348</u>

BOYLE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2004
(Continued)

Financing Obligations Fund	Boyle County Municipal Properties Corporation	Total Non-Major Governmental Funds
<u>\$ 287,397</u>	<u>\$ 1</u>	<u>\$ 703,796</u>
<u>\$ 287,397</u>	<u>\$ 1</u>	<u>\$ 703,796</u>
\$	\$	\$ 404,499
		11,899
<u>287,397</u>	<u>1</u>	<u>287,398</u>
<u>\$ 287,397</u>	<u>\$ 1</u>	<u>\$ 703,796</u>

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BOYLE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

BOYLE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	Jail Fund	911 Dispatch Fund	State Surplus Fund
REVENUES				
Taxes	\$	\$	\$ 88,531	\$
Intergovernmental	66,571	8,308	60,911	15,701
Miscellaneous		29,006		76,702
Interest	295	124	3,763	321
Total Revenues	<u>66,866</u>	<u>37,438</u>	<u>153,205</u>	<u>92,724</u>
EXPENDITURES				
General Government				
Protection to Persons and Property		106,650	128,433	
General Health and Sanitation	8,624			
Recreation and Culture	713			66,372
Roads	34,879			
Debt Service				82,808
Administration		831		
Total Expenditures	<u>44,216</u>	<u>107,481</u>	<u>128,433</u>	<u>149,180</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>22,650</u>	<u>(70,043)</u>	<u>24,772</u>	<u>(56,456)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		50,000		80,000
Transfers To Other Funds				(15,060)
Total Other Financing Sources (Uses)		<u>50,000</u>		<u>64,940</u>
Net Change in Fund Balances	22,650	(20,043)	24,772	8,484
Fund Balances - Beginning (Restated)	67,505	36,955	202,211	73,864
Fund Balances - Ending	<u>\$ 90,155</u>	<u>\$ 16,912</u>	<u>\$ 226,983</u>	<u>\$ 82,348</u>

BOYLE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Financing Obligations Fund	Boyle County Municipal Properties Corporation	Total Non-Major Governmental Funds
\$	\$	\$
214,659		88,531
		366,150
		105,708
5,970		10,473
220,629		570,862
		235,083
		8,624
		67,085
		34,879
	481,424	564,232
40		871
40	481,424	910,774
220,589	(481,424)	(339,912)
	481,424	611,424
(200,801)		(215,861)
(200,801)	481,424	395,563
19,788		55,651
267,609	1	648,145
\$ 287,397	\$ 1	\$ 703,796

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BOYLE COUNTY
COMMENTS AND RECOMMENDATIONS
For The Fiscal Year Ended June 30, 2004

**BOYLE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004**

REPORTABLE CONDITION

None

NONCOMPLIANCE

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On July 1, 2003, \$373,951 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). We recommend that the county require all depository institutions to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Response: Deficiency corrected prior to June 2004. Due to reinvestment upon C.D. maturation, there can be a period of uncollateralized assets due to bank processing.

The County Should Eliminate The Deficit In The Unreserved Special Revenue Fund Balance Of The Joint Jail Fund

As of June 30, 2004, the Boyle County Fiscal Court had a deficit in its unreserved special revenue fund balance of \$15,564. This amount was due to the existence of encumbrances in the amount of \$36,265. The deficit was eliminated with the deposit of funds after June 30, 2004.

Response: Encumbrances associated with Medical Services are never easily predicted. Consequently, cash balances are on some occasions not adequate when services are rendered and encumbered.

PRIOR YEAR FINDING

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

The written agreement has been obtained from the bank. Pledges were still inadequate for part of the year and that part of the comment will be repeated.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

Honorable Tony Wilder, Boyle County Judge/Executive
Members of the Boyle County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Boyle County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated August 5, 2005. We did not audit the financial statements of the Boyle County Municipal Properties Corporation, a blended component unit. Other auditors whose reports have been furnished to us audited those financial statements. Boyle County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Boyle County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boyle County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Eliminate The Deficit In The Unreserved Special Revenue Fund Balance Of The Joint Jail Fund

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The script is cursive and fluid.

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
August 5, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BOYLE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

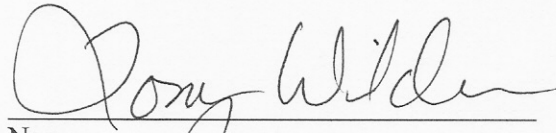
Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

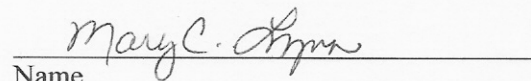
BOYLE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Boyle County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

